

Case studies

Preserving Legacy or Pioneering Progress: A Lesson Plan for the Next Chapter at Hatfield School Supply

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Hatfield School Supply is a 70-year-old company selling customized school planners and pencil vending machines to the K-12 market. Planner and pencil sales have steadily declined as they have been replaced by digital solutions. Declining sales then hit a hard stop when the COVID-19 Pandemic led many schools to shut down face-to-face instruction. The third-generation owner would like to pass down or sell the business, but its current financial condition and market outlook make that next to impossible. She, and the company President are contemplating alternatives to achieve the profitable growth necessary for the business to remain viable.

Case Synopsis

A 70-year-old school pencil vending and planner company with gradually declining sales is rocked by the COVID-19 Pandemic. Third-generation owner Joan Hatfield would like to retire soon, but the company's declining sales and debt make it unattractive to the fourth generation—or outside buyers. As Joan seeks a path to profitable growth, are these legacy products that provide 80% of the firm's current revenues the answer? Should the company shift its focus to the highest growth product in its mix—window graphics? Or should the company seek a digital replacement for its top-selling school planners?

Learning Objectives

- Evaluate Hatfield's growth opportunities in terms of market attractiveness, competitive intensity, internal resources and capabilities and profit potential.
- Apply the Ansoff growth strategies matrix framework to Hatfield's situation.
- Explain how to get stakeholders on board with product mix adjustments.
- Recommend a path forward for a multigenerational family business during times of change and uncertainty.
- Apply lessons from Product Life Cycle (PLC) analysis to make Product Mix and resource allocation decisions.

Case Background

Rich Frank, President of Hatfield School Supply just got off the phone, and the message was the same. With the COVID-19 Pandemic in full swing, yet another school district plans to be remote-only as the school year opens in Fall of 2020, and they do not plan to purchase planners.

This is especially troublesome, as Hatfield pre-orders the pre-printed, dated planner pages from overseas well in advance of the school year, and then finishes the custom productions for each school in-house. They are now sitting on hundreds of thousands of dollars of unusable, dated planners. Furthermore, with remote instruction, Hatfield's school vending machines—which vend pencils, erasers, and other supplies to students on-site, will not be needed, either.

Student Planners and Vending Machines (referred to as “legacy products”) represent nearly 80% of Hatfield's revenue, and much of it has disappeared overnight. Hatfield has been a national leader in the production and sale of custom-printed Student Planners for years, and the pencil and vending machine product lines go back even further. Both have been in gradual decline for years, being replaced by such digital substitutes as iPads, Chromebooks, and notebook computers. But the slow roll downhill for these “legacy products” has now gone off the cliff, and the future of the company is in jeopardy. Rich and majority owner Joan Hatfield are now contemplating the company's next move.

Brief History of Hatfield School Supply Company

Joan was proud of how far her family's company had come. Hatfield has been manufacturing and selling school supplies for 70 years. Her grandfather Chip Hatfield founded the company and originally sold map outlines on carbon master units with pencils as a supplementary product. As technologies evolved, pencils became Hatfield's core product. Chip later developed custom vending machines to sell pencils; the vending machines would be loaned to schools free of charge so long as they were stocked with Hatfield's pencils. Soon, schools began requesting other types of school supplies and vending machines for them:

notepads, pens, erasers and more. Before they knew it Hatfield was running their own paper mill, pencil factory, printing press and vending machine facility.

At its peak in the 1990s, Hatfield produced 52 million pencils every year and employed 116 people full-time. By 1994, Hatfield celebrated hitting \$10 million in sales (adjusted for inflation about \$20 million in 2023). Over time, adjustments were made to account for changing costs and the rise of the internet bringing e-commerce competitors. The pencil factory was sold, and pencils were imported to be finished in-house. Hatfield also expanded into the golf market selling golf pencils and other items.

The early aughts brought more change. Items such as gel pens and student planners were in-demand. Accordingly, Hatfield began printing and distributing customized dated school planners to schools. Through all these changes, Hatfield never stopped stocking their vending machines with school supplies.

However, the steady decline in legacy product sales led Joan Hatfield to think about what had kept the Hatfield brand alive for so long. She boiled it down to two key values: (1) focusing on the customer and (2) continuing to innovate. The most recent of these pivots was to add the design, production, and installation of window graphics to their product mix. These large-scale window films block UV light, promote school spirit and provide an additional layer of security. Hatfield began testing the waters with this product line in 2018, to immediate success. At the start of the pandemic, the window graphic product line had grown to represent 20% of Hatfield's revenue. Current production capacity could accommodate an additional 50% growth, which Hatfield expected to reach before the end of 2020 at its current growth rate; additional growth would require capital investment in an additional printer.

The Current Decision

Hatfield was no stranger to changing with the times and it seemed the time to adapt may be upon them again. Their core legacy product, pencils, had seen slowly declining sales for several years. While Hatfield had other product offerings including student planners, and other vending items, perhaps it was time to think beyond that for the future of the company. Joan sat down with her trusted advisor and longtime friend, Rich, and discussed three options for reaching Joan's profitability growth target of \$500,000 in 2021: (1) window graphics, (2) planner app, or (3) stick with the legacy products: pencils and school supply vending machines.

Option 1: Window Graphics

Rich began working at Hatfield as an offset printer on a Heidelberg press back in the 1970s. He saw window graphics as a new way to keep the printing side of the business alive, but it would require an initial investment of \$50,000 to acquire the specialized printer. Of course, additional supplies, such as rolls of window films and inks—which both varied in price depending on desired features—would also be needed. The initial investment was made, and Hat-

field began designing, printing, and installing window graphics for schools (and some other businesses) in 2018, to immediate success. Customers were solicited primarily by email, using purchased lists (CPM was \$45). Conversion rate was approximately 3.5%. Hatfield focused its email campaigns in specific geographic areas bi-weekly to minimize travel costs for the installers, which averaged \$120 per day. Graphics were designed and printed in-house by a salaried graphic designer who also designs planner covers and other miscellaneous products that Hatfield sells. Once designed and printed, the window graphics were shipped to the installers on location; the entire process, from initial inquiry to installation took about six weeks. In their first year of operation, sales totaled \$416,100; for 2019, sales in the window graphics product line increased to \$648,500. Historically, the average window graphic order was 203 square feet. Most orders could be installed by one technician, and the average installation time was 4 hours, so on average, an installer could complete two installations per day. However, 25% of orders were large enough to require two installers. The financials for this product line are as follows:

Item	Cost/Price
Window Film and Ink Cost (average)	\$1.80 sf
Labor Cost (Install)	\$20 hr. per technician
Shipping Cost (average)	\$25 per graphic
Price to Customer	\$7 sf

Option 2: Planner App

Joan and Rich worry that the future for paper planners is limited. Schools want branded and dated planners, but the margins are decreasing, and technology is continuing to evolve. Students are increasingly concerned about being eco-friendly and are pushing administrators for greener, digital alternatives. Perhaps the answer is to evolve with it and create a planner app? While Hatfield did not have in-house developers, it could contract with an experienced team to develop a school-customizable app that built in important dates from the school's calendar, including sporting events, theater productions, band concerts, and other extra-curricular activities. The app would integrate with the calendar function on students' phones or tablets, as well. Additional features of the app would be announcements, school closing information, safety information and potential future integration with the school's Learning Management System (LMS), though this is not currently possible. The initial cost of developing a robust, customizable app is estimated at \$100,000, with ongoing expenses for upgrades and customization of about \$20,000 per year. Pricing would be as follows: 1-100 students: \$7; 101-500

users Hatfield is contemplating two different pricing models: One would be a subscription, where schools pay

Number of Students	Price Per Student
1-100	\$7.00
101-250	\$6.00
251-500	\$5.50
500+	\$5.00

Using the school size of their current printed planner customers as a reference, Hatfield estimated the average revenue per student to be \$5.40, resulting in an average per school revenue of \$3,240.

Option 3: Re-commit to Legacy Products

The Pandemic will eventually ease, and students will return to the classroom. Hatfield's brand is well established within their industry and the business model still works, though it is not as profitable as it once was. Competition remained heavy, and like any mature and declining market, it was price competitive. Both sales and margins on legacy products (printed planners and pencil / pen vending machines) have been trending down over the last several years, well before the pandemic began. For example, sales for legacy products totaled about \$3.4m in 2017, but had fallen to about \$2.4m in 2019. Generally, legacy product revenues are heavily skewed to the second half of the calendar year, with about 33% coming in the first half, and 67% in the second half. First half 2020 sales of legacy products were about \$465k—a nearly 50% drop in YTD sales versus 2019. And with the many schools cancelling face-to-face class meetings to begin the 2020-2021 school year, Hatfield expects second-half sales to be lower than those in the first half. In short, the 2020 forecast is that legacy product revenues will be cut in half, or worse, versus 2019. However, even if cut in half, it would remain Hatfield's largest revenue-producing product division.

Gross margins on legacy products are about 45%, though labor and overhead costs were significant, and reduced net profits to about zero. Because there was significant slack in both production labor and overhead, because of both the downward trend through 2019, and the more significant shock decline brought on by the pandemic, an increase in sales by up to 60% would not increase labor or overhead cost in a meaningful way. The question is, will these products be as viable in 2021 and beyond as they were in 2019?

Joan wondered if simply leaning into Hatfield's identity as a school pencil company was the right decision. She still had 20 employees to think of few of whom would be needed if Hatfield shifts its emphasis to window graphics or a planner app. These employees were clearly "Team Pencil." Hatfield is in a small rural town and was once the town's largest employer. It has a long history of providing jobs to the area. Team Pencil had been at Hatfield for most of their lives and so had their parents before them. It would be difficult for most of them to find another job, let alone one in the area. Even the bank, fully aware of the declining revenue

in the legacy products division, was part of Team Pencil. The existing vending machines were relatively low cost and low effort for Hatfield; plus, they could expand geographically, offer other products in the vending machines, or add card readers to the vending machines. Hatfield already has the inventory to stock those machines for at least 2-3 more years.

Conclusion

Joan knew she had a decision to make, one that would not be easy. She is due to retire soon but the business is not prepared for her to do so. Other company executives are also very near to retirement. The COVID-19 pandemic is in full swing, with no end in sight, and uncertainty abounds. There is little discussion of normal, but rather "the new normal." It is unclear to all if the business environment of 2021 and beyond will resemble 2019 or be completely different.

Hatfield is a retirement asset for Joan and thus she would like to sell the business, preferably to her son Mark who along with Rich is responsible for the creation and growth of the window graphics division. Joan also has not ruled out selling the business to a third party. However, before either option is feasible, Hatfield must achieve significant profitable growth to pay down current debt. Specifically, Hatfield needs to increase net profit by approximately \$500,000 in 2021, and \$750,000 in 2022, relative to 2019 levels. Simply put, without profitable growth and debt reduction, the business cannot be sold, and its long-term future will be in jeopardy.

Joan also wants her employees and customers to continue to be cared for and for Hatfield to live on. Hatfield was part of her family and a staple in her community. She had spent her entire life working at Hatfield. It had defied the odds and survived three generations, and she hoped it would make it to a fourth.

When Joan was a young girl, her grandpa Chip would tell her "Family businesses are hard." Looking back, she knows he was right. It was time to pivot again, as Hatfield had so many times before. It had been hard, but Joan was not ready to give up yet.

Discussion Questions

1. Discuss the pros and cons of each of the alternatives. Consider such factors as investment requirements, competitive environment, market attractiveness, product life cycle, impact on stakeholders, and risk / likelihood of success.
2. Evaluate each of the alternatives financially. Which option is most likely to help Joan reach her profit growth objective for 2021? Why?
3. Where does each option belong on the Ansoff (growth strategies) matrix? Based on their placements, which option seems the riskiest? Safest?
4. Given Hatfield's long legacy, should they ever stop selling pencils?

5. If you choose to grow in Window Graphics or the Planner App, how would you maintain the morale of Team Pencil? Submitted: March 01, 2024 MST, Accepted: October 01, 2024 MST
6. Place yourself in June 2020. What would you have done if you were Joan? Why? Would your answer be different with the additional context of today?



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